

ORR

Date: 30 Sept


From Sherman Kent

To: Mr Amory.

This is the iniquity
I referred to this
morning. A real
striker.

The Dir might have
these arguments in mind
when he drafts the next
speech.

25X1A

To  when he makes
speeches when we discuss the report with him.

American Letter

SUPPLEMENT

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August 15, 1959

CPYRGHT

POPULAR DELUSIONS ABOUT RUSSIA

The American business community urgently needs a better understanding of the Soviet economy. This special report seeks to present a balanced picture of Russia's economic progress and problems.

THE RUSSIAN WORLD IS VAST, both in area and population, but therein lie weaknesses as well as strengths. Despite its great resources, Russia has lagged for two centuries behind the economic development of Western Europe and North America. By all standards, it is still a backward country, even though its total energies are being devoted to catching up.

The American concept of Russia is shaped by fears and misconceptions. The fears reflect the revulsion felt by free peoples toward the repressions and imperialistic ambitions of Russia's communist masters. The misconceptions stem from (1) absence of reliable data, (2) difficulty of relating the known facts to economic progress elsewhere. Russia is moving forward—but from the rear. She still has far to go to get out of her centuries-old rut. Major points to bear in mind when weighing her future are:

Her great area is a handicap as well as an asset. The Soviet Empire is as large as Brazil, Canada and the U.S. combined, but its transportation system is not comparable with its distances. Russian railroad mileage is less than a third that of the U.S. despite recent construction. It has no integrated highway system as such. Total highway mileage, a fifth the U.S. figure, is wholly lacking in intercity road networks. This is Russia's greatest handicap in her effort to develop a modern industrial complex.

Her large population is badly unbalanced. Russia lost 15 million men in War II, and only time can remedy the shortage of able manpower in the middle age groups. Women greatly outnumber men and constitute 47% of the work force. Because of the wartime losses and low birthrate, expansion of the 20-to-45 age group is slow, thus magnifying the labor shortage.

Industrial production actually is small relative both to resources and population. Output is in fact abysmally small compared to the U.S. Although Khrushchev recently boasted that Russian production is half that of the U.S. and coming up fast, it actually is only a third. Moreover, industry is badly balanced, with capital goods given all priorities.

Latest available statistics indicate that Russian industrial output now only about equals that of the U.S. in 1913. In other words, her industry stands today about where that of the U.S. did 40 years ago. And despite official claims to the contrary, Russia's postwar achievements have been no more phenomenal than those elsewhere in Europe.

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Russia's production figures are misleading. Any fear that her output will soon "catch up and surpass" that of the U.S. is pure bosh. Accepted calculations show the longterm rate of gain in output has been about 3.9%, compared with 3.7% in the U.S. But even this is misleading. A 25% rise in Russia's annual auto production (from 100,000 to 125,000 units) would be equivalent to only a 4% increase in this country's total.

Industry is topheavy. Steel, coal, cement, oil, power, military equipment—all the heavy capital-goods lines—get top priority. Consumer goods, especially durables, are left to beg. This produces an imbalance that not even an authoritarian state can endure permanently. Overall efficiency is held back. Consumer goods output is rising, but at a clumsy, wasteful pace.

The consumer meanwhile lives on promises. He can buy shoddy cotton or woolen yard goods but suits, dresses, shoes, hats, etc., are both of extremely poor quality and fantastically high priced. As much as a month's labor is required to buy a good overcoat or pair of shoes.

Russian industry is also inefficient. This is a broad charge and has to be explained. New steel plants are doubtless the equal of those anywhere in the world. Russian technology itself is excellent. Scientists, engineers and technicians are of the best. But the management system suffers from the Moscow-centered bureaucracy, too little local authority.

Basic decisions filter down slowly from the top echelons to the plant manager. Despite improvements under Khrushchev, management is handicapped by transportation difficulties, lack of raw materials, inability to make repairs or buy new machinery or modernize its products.

Industrial plants are largely obsolescent. The remarkable thing about the steel industry in Russia is that, as new plants are built, the older and less efficient facilities are nevertheless continued in production. Russia still produces much of its steel in antiquated plants such as this country had 40 years ago—plants wasteful both of men and materials. Replacement of machine tools hardly exceeds 2% to 3% annually. The textile industry is particularly out of date, which accounts for poor quality.

Emphasis on building new facilities overlooks the need for constant modernization of her older plants. Russia is simply not doing this, and her entire economy must ultimately pay the penalty for it.

Productivity per worker is consequently low. This was brought out dramatically at a June planning conference in Moscow. The official press was forced to admit that three-fifths of construction work is still done by manual labor; mining is insufficiently mechanized; work done by 40% of employees in chemical industries could easily be done by machinery. There are at least a million superfluous workers in metalworking and machinery.

Consequently, with an industrial labor force equal to or larger than that of the U.S., Russia produces only a third as much. Or put another way, output of the typical U.S. worker is three times greater.

Quality of output is generally poor. Faulty building construction is the best illustration of this. Brickwork, stucco, painting, hardware, electric facilities, floors and plumbing are usually second-rate to begin with, and deterioration is rapid because maintenance is also skimped.

Russian agriculture lags far behind. Vast wheat acreages are cultivated and harvested with modern mechanized equipment, but there the comparison with the West ends. Great amounts of labor are wasted even on the showplace state farms. Consequently, the average farm worker in Russia produces only food enough for another two or three people. This compares with a 1-for-17 ratio in the U.S. Thus, the American farmer produces on the average some 6 to 12 times that of his Russian counterpart.

Russia also is lacking in any modern food distribution system. This calls for rapid transportation, proper packing, refrigeration, efficient market handling. But Russia lacks a basic highway network.

The Russian diet reflects these weaknesses. Fish and potatoes are the main staples, along with bread. Dairy-product output per consumer is 53% of this country's; vegetable oils, 43%; meat, 32%; grain, 55%.

Worker purchasing power is low. Even with two or more members of a family working, incomes are barely sufficient for the staple foods and a minimum of clothing and household accessories. Incomes are deliberately held down (except for certain echelons of the bureaucracy, as well as scientists, teachers, etc.) in order to maintain economic emphasis on capital goods production. Also, the planners frequently outnumber the producers.

Apologists for the Russian system argue that all is relative, and that the Russian peasant of today is far better off than he was 40 years ago or even immediately after War II. This is true, but Russian standards of living are still the lowest in all of industrial Europe. Except for rents and bread, basic costs are high relative to individual incomes.

The educational system is unbalanced. Russian education methods are excellent in many respects. Certainly in their basic teaching of science there is little to criticize. But doctors, chemists, engineers and physicists do not alone create a rounded society. The modern technical, high-pressure world requires skilled business managers with broad backgrounds of education—in history, social sciences, psychology, etc. Russia lacks anything comparable with our graduate schools of business administration.

Forced education has another serious weakness, one on which Khrushchev has recently had to take action. Too many unlikely candidates for a higher education were being sent to the universities. These schools were becoming a haven for the incompetent and the lazy. The system is being changed, to send up only the best qualified and ambitious.

State planning is static, and this is the chief inherent weakness of the communist system. The people work hard and for long hours merely to eke out a bare existence. The government draws up bold plans and fancy five-year programs which look fine on paper but are rarely realized. The country is attempting to cancel out a century of backwardness in one giant leap. It is making visible progress, but not coordinated gains.

Heavy emphasis in one direction tends to hurt in another. Coal, for example, is a declining industry in the U.S. It still, however, has a high production priority in Russia, though quality is low and other fuels are more efficient. Yet to produce 87% as much coal as does the United States the Soviets have to employ five times as many miners. This is but one example of Russia's incalculable wastes.

Defense imposes an excessive strain. The Soviet devotes probably twice the percentage of its gross national product to defense as that of the U.S. This constitutes a heavy and totally unproductive burden. But there are also many indirect loads which the Soviet economy must carry. The satellites, for example, are being integrated with it. The purpose is to build a broad, diversified industrial base, but the effort creates new strains.

Russia's planners appear to fall on their faces whenever they are confronted with sharp changes in policy and direction. The basic orders go out but are rarely followed up with necessary detailed instructions. This often creates chaos in whole industries. With the added burden of primary emphasis on defense, the civilian economy invariably suffers.

Russia is a minor factor in international trade. In the complex modern world this constitutes a serious liability. Russia has never been one of the major trading nations, yet unless it does achieve stature in that field it cannot take its place with the other highly complex modern economies.

Historically, Russia's exports have been chiefly of timber, chrome and raw materials, with occasionally some grain. But she badly needs machinery, equipment and other industrial products. To buy these it must export. Now and then surpluses develop which enable it to obtain foreign earnings, but all too often these surpluses are temporary.

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It is difficult to measure Russia's progress or lack of it in hard statistics. But there are enough trustworthy figures, as we have shown, to deflate the almost juvenile claims made by her propaganda machine. The fact that the last Five Year Plan had to be scrapped in favor of a Seven Year Plan is significant in itself. Percentage gains demanded of many industries proved utterly beyond the ability of the economy to achieve.

Russia has not allowed for the inevitable heavy capital investments required simply to meet ordinary depreciation and obsolescence. Even as total output rises, the industrial machine grows older and less efficient. From now on the Soviet must devote more and more of its energies, material and manpower to replacement. This will be a heavy drag on Khrushchev's blueprint for catching up with the U.S.—and helps explain his repeated emphasis on the possibility of buying whole industrial plants from us.

There are other forces statistics cannot measure. The Soviet Union's 200 million people know little of the outside world but an awareness is developing, and they are growing inquisitive. Response to the U.S. exhibit in Moscow reflects growing hunger for "the better life". This desire for improved living standards cannot be repressed forever. It represents a growing claim on economic resources over-committed to basic production.

Russia is militarily powerful, politically treacherous. As long as that is so, the West cannot afford to let down its guard. But neither is there ground for alarm at the Soviet economic challenge. The U.S. needs to understand that Russia still has a long way to go. There is a wide gap between the two great economies.

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